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Ely, Smith

Speech ... in the House of
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SPEECH
OF
HON. SMITH ELY, JR.,
OF NEW YORK,
CHAIRMAN OF THE COMMITTEE ON EXPENDITURES IN THE
TREASURY DEPARTMENT,
IN THE
HOUSE OF REPRESENTATIVES,
SATURDAY, JULY 29, 1876.

SPEECH
OF
Hon. SMITH ELY, Jr.,
OF NEW YORK,

IN THE HOUSE OF REPRESENTATIVES,

Saturday, July 29, 1876.

The House being as in Committee of the Whole, on the state of the Union for debate only, Mr. ELY said:

MR. SPEAKER,—Although I do not believe it to be practicable at this session of Congress to perfect any legislation which will materially change the method of manufacturing the circulating notes and securities of the Government, yet an examination of the operations of this department recently made by a committee of which I have the honor to be chairman, impels me to bring this subject before the House, with a view to such future legislation as will increase the efficiency, economy, and safety of this branch of the public service.

A large manufacturing establishment is carried on by the Government in the City of Washington, employing from fifteen hundred to two thousand persons, with a monthly pay-roll running from \$100,000 to \$150,000, with apparatus and machinery upon which there has been expended between six and seven hundred thousand dollars. This factory was organized and has been maintained not under any law directly authorizing its establishment, but indirectly by clauses in various loan and appropriation Acts. This factory is for the manufacture of fractional currency, United States notes, bonds, stamps, and other securities of the United States, and is the largest engraving and printing establishment in the world. This business is not carried on by the Government because it can do the work with greater security and economy than private parties, for the American Bank-Note Company supplied the Govern-

rent long before this factory was started, and for nearly fifty years, printed the securities ready for issue, and furnishes them now to several governments in Europe and to almost all those in South America.

The operations of the Bureau of Engraving and Printing have been twice investigated and compared with the private companies by committees of Congress, and each committee has asserted the superiority of the private companies.

The Joint Select Committee on Retrenchment, of which Senator Edmunds, of Vermont, and Representative Halsey, of New Jersey, were the respective chairmen, was appointed in 1867, and reported March 3, 1869; they state that they "could not fail to be struck with the difference in the management and details, both personal and otherwise, between such operations carried on by paid officers of the Government and similar operations carried on by private persons or corporations." "Such a comparison is decidedly unfavorable to the Government engaging in any operations of this character where it can possibly be dispensed with;" "from political and other causes so large an element of incapacity and carelessness and unfaithfulness is introduced into the operations as in a considerable degree to derange and paralyze the efforts of those who are sincerely desirous of doing the best possible work for the Government."

This committee ascertained that more than \$3,000,000 of securities other than fractional currency had been "lost, stolen, or unaccounted for." A schedule taken from this report of securities "lost, stolen or unaccounted for" between 1861 and 1867 is annexed hereto. The actual amount is probably much greater, for the committee say that "as to fractional currency in particular, if any fraud has occurred, it can never be ascertained from redemption, unless the frauds have been enormous in amount;" and "that owing to the great number of these fractional notes which are lost and destroyed in the hands of the people, it will never be possible to ascertain by redemption or otherwise whether there has been any wrong perpetrated on the Government in respect to them." (Report, page 86.) This same committee further report that the highest safety is to be attained by having the notes and securities printed at different establishments. It also found that there was no evidence that there had been one dollar lost through either of the bank-note companies.

The second investigation was conducted by the Committee on Banking and Currency in 1874 and 1875. Their report (No. 150, Forty-third Congress, second session) was made by William Walter Phelps, of New Jersey, February 17, 1875. They reported that, "Although the recommendations of the Committee on Retrenchment were not embodied in a law, its moral effect was such that it was accepted as law by the Treasury Department. A complete and radical change was made, in accordance with the recommendation, in the preparation of the Government notes and other securities, namely, that the work of preparing the securities should not be done in any one place or establishment, but should be so distributed among at least three different establishments that no one or even two of them should have it in their power to furnish any note, bond, or coupon, and that the final process of signing and sealing (*i. e.*, the authentication) should be done in the Treasury Department. That from 1869 to 1874 this work was mainly done by outside parties. In accordance with this report the Secretary contracted with two Bank-Note Companies of New York, each executing one printing upon most of the notes and securities, the Bureau executing one upon the fractional currency and two upon the United States notes. That this plan was followed until 1874, when it was so far abandoned that all the work of preparing these securities was transferred to the Bureau, excepting one printing, which was done by a bank-note company in the City of Washington."

The Committee say that "the system worked satisfactorily for five years; why should it be changed without some good reason? We ought not to change a system which started with such good authority, has worked so well, and strikes so favorably the common sense of the people." They reported that "the work of the Bureau is more expensive than that of the companies," and that, therefore, by taking the work from the companies and giving it to the Government the cost must have been largely increased. That the evidence proved that, "in 1873, the Bureau employed between eleven hundred and twelve hundred persons, and these did less work than was done by the six hundred employes of a private company;" "that it seemed to be acknowledged by the Bureau that one-third of the cost in the Bureau is for what does not enter at all into the cost of preparation by the companies." The Com-

mittee then give the items furnished by the Bureau which occasion this extra cost, and say:

Why add 5 per cent. to the cost of securities to pay employees when they have nothing to do? Why add 25 per cent. to give employment for fewer hours and higher wages than the private company gives for the same work?

The Committee do not answer these questions, because they could not without admitting that these things were permitted only for political considerations. They say:

If the Bureau was not already established and on our hands, it would be a question whether its operations might not properly be restricted to authenticating and finishing the Government issues.

There cannot be any doubt upon this point. No prudent man would run a factory at a large, constant annual loss, simply because he had it on hand. No business should be managed by the Government on such a basis, or controlled upon such principles. The Committee, in conclusion, therefore, recommend "that all the national bank-notes, United States notes, and other securities of the United States, be executed with at least three plate-printings, besides the seal printing; and that at least two of these printings be executed by responsible and experienced companies or establishments, no company or establishment executing more than one printing upon the same note or obligation."

The report was made at the close of the session, but as the Committee was not called, the bill they reported was not acted upon.

Secretary Boutwell followed the recommendations of the Committee of 1869, but Secretary Bristow departed from this system, although it had been again recommended by the Committee of 1875. He has taken the risk of departing from these instructions, and of dispensing with one of these printings, and authorizing the only one performed outside of the Bureau to be executed in Washington by the Columbian Bank-Note Company. He has assumed the responsibility of giving up one of the guards which two Committees of Congress had pronounced necessary for obtaining the highest security. Anything less than the highest attainable security, when millions are at stake, is censurable, if not wrong.

The absolute necessity for the "highest safety" will appear from the following consideration: There is no intrinsic value in a bank-note or other security as there is in coin. If a given amount of bullion is deposited in the Mint, the coinage it should yield is easily and definitely ascertained, and any loss detected. If ten sheets of

paper are received at the Printing Bureau, it cannot be ascertained by that fact whether they should represent, when printed, ten dollars or one hundred thousand dollars; and if this work is all done at one factory, or at two in the same place, there is much greater danger of fraud than if it is done at three establishments in three different places, each one a check upon the other.

The method recommended by these two Committees affords an almost perfect security against fraud, over-issue, or an increase in the face-value of the bill. The paper is made in a mill in Pennsylvania, under the inspection of a Government official, each sheet of a size adapted for a given denomination, counted, sent to the Bureau, then again counted and forwarded to one of the New York Bank-Note Companies, who are charged with the face-value of each sheet. They execute one printing, and deliver each sheet to the Bureau, or pay for its face-value. The sheet is then sent to a second company, which executes another printing under the same responsibilities, and the paper is then delivered to the Bureau for the final printing and sealing. By this plan the paper mill and each of the companies are a check upon each other and the Bureau, and the risk is reduced to the danger of theft in the Bureau. This danger would be further diminished by having the third printing performed outside the Bureau, confining its operations to sealing and finishing the note. There are now only two printings besides the seal, and one of these is done by a private company in Washington, the other by the Bureau. Greater facilities for fraudulent combinations among the employees are thus afforded than if this second printing was executed in another city.

The Secretary of the Treasury has not given any reason for dispensing with one of these safeguards and thereby increasing the risk of fraud. The liability to error, even with the best devised system of checks, was shown at the hearing before the Committee on Banking and Currency, in 1875.

Secretary Bristow sent a communication to that committee concluding as follows:

Since the adoption of a special paper and the present system of checks, a period of about six years, the Government has not lost the value of one cent or more, or a piece of paper the size of a ten-cent note.

That this statement was incorrect was proved by the production, at the hearing, of one hundred sheets of this special paper, of which the Bureau had no record, and by the accounts of paper

delivered and received between the Bureau and the Bank-note Companies by which it was shown that the paper was frequently either "short" or "over." These facts established that the Secretary of the Treasury has not adopted the best or most economical method of printing the Government notes and securities, and that implicit reliance cannot be placed upon the system of checks devised by the Bureau.

APPROPRIATION OF APRIL, 1876.

It will be remembered that in April last a Deficiency Bill was introduced appropriating \$200,000 for the purpose of carrying on the work in the Bureau, because the entire appropriation for the year was exhausted. No reason has ever been given for this insufficiency of the appropriation; none can be given except the desire of the Bureau to increase its usefulness. The administration of Secretary Bristow resulted in an increase of Government patronage. This is evident from the replies of the Treasury Department to questions propounded by the Committee on Expenditures in the Treasury Department of the present Congress. From these it appears that the largest number of employes in the year ending June 30, 1875, was thirteen hundred and forty-nine; that the least number for the next fiscal year was greater than the largest number employed the preceding year; that in January and February, 1876, the number was increased to sixteen hundred and sixty-nine, and the pay-rolls in the same ratio from \$94,000 in July, 1875, to \$147,000 in January, 1876; and by the middle of February the appropriation authorized to be expended for the full fiscal year, ending July 1, having been exhausted, work in the Bureau was suspended. If Secretary Bristow had reduced the force of the Bureau as much as he increased it, the appropriation would have been ample to have carried on the work the whole year. There was no demand for the increased force. When the Bureau had ceased to work it had on hand over 7,000,000 sheets partly printed, of which about 4,000,000 were fractional currency, besides having printed and issued during the seven months ending in July, 1876, a larger amount of fractional currency than in any preceding year. A prudent and faithful manager would have arranged his work in conformity with his appropriation, and been left with only a small amount of unfinished work on hand.

WATER-PROOFING PROCESS.

In the examination before the Committee on Banking and Currency it appeared by the evidence of Mr. McCartee, the chief of the Bureau, that "about \$100,000 a year for the secret process" for water-proofing the paper (page 261) was paid to John M. Williams (page 267); that this process was entirely protected by a patent (page 269), and was intended to set the colors indelibly, to strengthen the paper, and afford a safeguard against counterfeiting (page 262). These facts he said were proved by certain experiments made (page 267) by him and Mr. Jewell, then his book-keeper, now the chief of the Bureau, in 1871. This patented secret process was the Lowery patent (Miscellaneous Document No. 163, page 15, answer), and was a mixture of rosin and castile soap dissolved in alkali, with sulphate of zinc and salt. (Banking and Currency, page 413). The House Committee were doubtful of the value of this process, and recommended the Secretary of the Treasury, Mr. Bristow, to appoint a commission of experts to ascertain its practical use. Six months after this recommendation was made the Secretary of the Treasury requested Professor Henry, the President of the National Academy of Sciences, to appoint a committee for this purpose; and Professor Hilgard, of the Coast Survey, Professor Chandler, of Columbia College and President of the Board of Health of New York City, William Sellers, mechanical engineer, of Philadelphia, and Professor Morton, of the Stevens Institute, Hoboken, were appointed by Professor Henry to report "on the usefulness of the process of increasing the durability of paper and security against counterfeiting; 2nd, their judgment as to what would be fair compensation to the patentee, assuming the patent to be valid."

This committee, after a partial examination, in the autumn of 1875, submitted to the Secretary a memorandum of the principal points of a proposed report, concluding that it was of great advantage and utility. (See Miscellaneous Document No. 163, part 2, page 14, in answer to questions of the Committee on Expenditures in the Treasury Department, Forty-fourth Congress). On the 31st of March, 1876, the Secretary replied, in answer to questions of this committee, that in consequence of this report he had seen no reason "to question the usefulness of the process, and therefore continued to use it until the Bureau was closed in Feb-

ruary last," and continued that "as yet no formal or other report of the commission to whom the matter was referred has been received." It appears, however, from a note of Mr. Hilgard (No. 163, part 2, page 20) that the informal memorandum was given to the Secretary about October 1; that in November "he communicated to the chief of the Bureau of Engraving and Printing and immediately afterward to Assistant Secretary Conant, Mr. Bristow being absent, the change of view arrived at. As the first statement had been informal, Mr. Conant being present, the second information seemed to me quite sufficient to bar any action in the premises." This change of view resulted from a more thorough examination, which proved that the "water-proofing process added nothing to the wear of the notes."

Professor Morton, by whom some of the experiments were made, states that the "average of twenty experiments shows a slight advantage for the notes *not* water-proofed."

It also appeared that—

There is nothing in the Lowery patent but some special combination of well known processes. * * * The patentee is entitled to credit for the suggestion, but has no proprietary right in it; * * * as satisfactory results could readily be obtained without infringing on the rights of the patentee.

The committee came to the conclusion that they could "not perceive that the durability of the notes in actual circulation is materially increased by the treatment in question," "nor that the advantages of the process in increasing the difficulty of counterfeiting are of any importance."

The report of this committee was submitted to Professor Henry, and by him forwarded to the Secretary of the Treasury, March 24, 1876, with a note, in which he stated that in his opinion the "value of the process is one of much difficulty, and that it can only be definitely settled by trial of the process in actual practice."

It appears from the evidence before the Committee on Banking and Currency that the Bureau commenced using this process about 1872, and continued it until the close of the Bureau, in February last. The fractional currency printed in 1870 was 8,500,000 impressions, which the chief of the Bureau, in his report for that year, said was a much larger number than usual. In 1871, it was 9,500,000; in 1872, 12,630,000; in 1873, 11,500,000; in 1874, 12,000,000; in 1875, 12,988,000; and in the next seven months,

14,567,000. It thus appears that the results shown by the wear of the currency in use confirms the experiments of Professor Morton and the report of the committee.

It appears to be proved of this secret patented process:

First.—That it was of no value.

Second.—That no patent was required for its use.

Third.—That for its use about \$100,000 a year was paid to the former partner of the chief of the Bureau.

Fourth.—That its use was followed by an increase in issue of currency of nearly 100 per cent., showing conclusively, by the crucial test recommended by Prof. Henry, that the paper was less durable.

It is worthy of notice that this process was continued for three months after Mr. Hilgard had notified the Department that the commission had concluded that it was of no utility or value.

REVENUE STAMPS.

In July, 1874, the Internal Revenue Bureau advertised for proposals for furnishing revenue stamps, and in October contracts were awarded to the Bank-note Companies of New York at prices about 25 per cent. less than those paid to the Bureau. The deliveries under the new contracts were to commence on the 1st of January, 1875. Previous to these contracts the stamps were manufactured in the Bureau of Engraving and Printing, excepting the tint-work. Although the Internal Revenue Bureau decided in July to have the stamps furnished by private parties, and awarded the contracts in October, yet the Bureau continued the manufacture as though these contracts had not been made, and had accumulated a supply sufficient to overlap the stamps furnished under the contracts six months; and in April, 1875, delivered one-half of all they had manufactured for the year commencing July 1, 1874, at a cost of 25 per cent. higher than the contract price. Besides this a new series of stamps had been adopted, and consequently the whole surplus must be again destroyed, involving a loss of over \$150,000. This shows mismanagement in this Bureau.

It further appears from one of these schedules furnished to the Committee on Expenditures in the Treasury Department, that the Bureau made a monthly charge for examining and counting the "tints" received from the Bank-note Companies. These charges,

however, seemed to be based on no fixed rate. In September, 1874, the charge is \$844.36 for 382,000 impressions, or \$2 per thousand; in November the charge is \$590.84 for 10,000 impressions, or \$59 per thousand impressions.

The printing of "tints" by the Bank-note Companies ceased in December, 1874, but the charge for examination continued for the next six months, at an average of \$500 per month; but in April, 1875, there is an additional charge of \$2,940.39 for examining 1,669,000 "tints," being probably the surplus on the old contract in the hands of the Bank-note Companies and given up at that time. The conclusions to be deduced from these facts are:

First.—That an annual saving of at least \$75,000 accrues to the Government by giving the printing of stamps to responsible private corporations.

Second.—That under such contracts there is less loss by waste than when the work is executed by one Bureau for another over whose operations it exercises little control. The work is now performed under the direct supervision of a Government agent stationed at each establishment, and the Companies are under bonds to pay the Government the full value of every stamp unaccounted for. A distinguished member of this House recently urged as a reason for having this work all done at the Bureau of Engraving and Printing, that it would give occupation to the many unemployed people at Washington. As a matter of philanthropy this argument is sound only because it requires a much larger number of persons in Washington than it does in New York to do the same amount of work. Apart from this I do not know what superior claim the unemployed of any one city have upon the consideration of Congress. And it is certainly unwise to attract to this city another thousand persons, mostly females, to be subjected to the questionable social influences which always surround a political capital.

In conclusion, Mr. Speaker, I beg leave to say that in my judgment the best system of checks devised by the Bureau is not infallible, and therefore fraud is possible. I concur with the reports of the Joint Special Committee on Retrenchment made in 1869, and of the Committee on Banking and Currency made in 1875, that the "highest safety in the printing of the bills and other securities can only be obtained when three printings besides the seal

printing are executed on each issue, two at least being made by private responsible parties." I also think that all stamps should be executed by contract with outside parties.

Mr. Speaker, it was an old-fashioned Democratic maxim that the powers and patronage of the central Government should be restricted to the narrowest practicable limits. I still adhere to that theory.

APPENDIX.

SCHEDULE OF SECURITIES UNACCOUNTED FOR.

According to the report of the Select Committee on Retrenchment, the following securities were "lost, stolen, or unaccounted for" by the Bureau of Engraving and Printing of loans made between 1861 and 1867, besides the fractional currency, of which it was impossible to ascertain the issue:

Page of Report.	Number of Obligations unaccounted for.	Denominations.	Amount.	REMARKS.
5	1 U. S. bond	\$1,000	\$1,000	Unaccounted for.
8	2 notes	500	1,000	Do.
16	283 notes	50	14,000	Do.
16	73 notes	100	7,300	Do.
16	50 notes	1,000	50,000	Do.
16	79 notes	5,000	395,000	Do.
17	5 notes	100	500	Duplicates issued.
24	1 bond	100	100	Unaccounted for.
24	55 bonds	50	2,750	Evidence of destruction not perfect.
26	103 bonds	500	51,500	Unaccounted for.
26	26	50	1,500	Not satisfactorily accounted for.
26	7,073	100	707,200	Do.
26	1,037	500	\$81,500	Do.
26	368	1,000	368,000	Do.
29	4 bonds	1,000	4,000	Unaccounted for.
66	10,500	Disappeared, stolen, or lost.	
67	8 notes	10	80	Unaccounted for.
67	4 notes	20	80	Do.
73	12 notes	20	240	Do.
73	60 notes	50	3,000	Do.
73	16 notes	100	1,600	Do.
73	48 notes	500	24,000	Do.
81	1	5,000	5,000	Destroyed, or on hand, or sent to Paris.
85	1	500	500	Lost in loan branch.
65, 66	Lot 101	10,200	Lost or stolen.	
82, 83	7,600	Error either in Secretary of Treasury, or they were abstracted.	
84	various deficits	8,400	Only accounted for as above.	
86	various deficits	6,215		
95, 91	900,000	Unaccounted for.	
	Total		\$3,162,919	

Stamp deliveries from schedule of July 1, 1874, to June 30, 1875.

	<i>Stamps Manufactured.</i>	<i>Stamps Delivered in April, 1875.</i>
Tax paid	1,065,000	574,000
Tax not paid.	3,483,000	1,648,000
Beer	26,773,000	17,000,000
Tobacco stub	3,519,000	1,600,000
Tobacco sheet	1,164,000	527,000
Tobacco strip	144,390,000	69,000,000
Snuff sheet	7,483,000	3,000,000
Cigars	21,152,000	12,300,000
Brewer permits	108,000	49,000
Total	209,137,000	105,598,000

Total 209,137,000; of these were delivered in April, 105,898,000, or more than one-half, which were then of no value and subsequently cancelled.

PRICES FOR ONE THOUSAND STAMPS.

<i>KINDS OF STAMPS.</i>	<i>Prices charged for Stamps.</i>	
	<i>By Bureau.</i>	<i>By New York Companies.</i>
Tax paid—Bureau	\$8 50	
Tints	6 21	
Not tax paid—Bureau	5 75	\$14 71
Tints	4 59	8 13 75
Beer—Bureau	95	
Tints	1 00	10 34
Tobacco stub—Bureau	5 25	1 95
Tints	3 94	1 15
Tobacco sheet—Bureau	1 75	9 19
Tints	1 36	6 94
Tobacco strip, 1 and 2 ounces—Bureau	66	3 11
Tobacco strip, 4 ounces—Bureau	82	3 04
Tobacco strip, 8 ounces—Bureau	1 40	66
Tobacco strip, 16 ounces—Bureau	1 78	1 50
Cigars, 25—Bureau	2 25	1 75
Cigars, 50—Bureau	2 50	1 70
Cigars, 100—Bureau	2 90	1 95
Cigars, 250—Bureau	4 00	2 20
Cigars, 500—Bureau	4 00	3 35
Cigarettes—Bureau	2 00	3 35
		1 70

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